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FM AMEMBASSY BONN

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ERDA GERMANTOWN IMMEDIATE

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AMEMBASSY LONDON

UNCLAS SECTION 01 OF 05 BONN 04104

E. O. 11652: N/A

TAGS: ENRG, GW

SUBJECT: IEA - LONDON DRAFTING SESSION ON ENERGY

R&D GUIDING PRINCIPLES

REF: A. OECD PARIS 05772, B. BONN 3643

SUMMARY. DR. SCHMIDT-KUESTER, WITH AGREEMENT OF DR. MARSHALL (UK), ASKED EMBASSY TO CABLE TO USG THE TEXT OF MARSHALL'S PAPER ABOUT IEA ENERGY R&D PROGRAM. AS NOTED IN REFTELS, THIS PAPER WILL BE ONE INPUT FOR DRAFTING SESSION IN LONDON ON MARCH 18-19, 1975. VERBATIM TEXT FOLLOWS, USING PARAGRAPH NUMBERS OF MARSHALL'S ORIGINAL TELEX FROM LONDON TO SCHMIDT-KUESTER. END SUMMARY. BEGIN TEXT:

"CONSORTIA FOR ENERGY RESEARCH AND DEVELOPMENT --"

-- DISCUSSION PAPER BY W. MARSHALL

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THE VIEWS EXPRESSED IN THIS PAPER ARE PUT UP ONLY

FOR DISCUSSION. THEY ARE PERSONAL TO ME AND DO NOT NECESSARILY REPRESENT THE FORMAL VIEWS OF THE UNITED KINGDOM GOVERNMENT.

INTRODUCTION

1. THE I.E.A. HAS SEVERAL OBJECTIVES BUT ALL CAN BE SUMMED UP BY THE PHRASE: - "TO REDUCE THE DEPENDENCE OF MEMBER STATES ON OIL IMPORTS FROM ---OPEC--- COUNTRIES IN THE SHORT TERM, AND TO ENCOURAGE ALTERNATIVE ENERGY PRODUCTION AND THE MORE RATIONAL USE OF ENERGY IN THE LONG TERM." SECRETARY OF STATE KISSINGER HAS MADE IMPORTANT SUGGESTIONS TOWARDS MEETING THIS AIM AND SOME OF THEM WERE ELABORATED BY ASSISTANT SECRETARY ENDERS IN A STATEMENT TO THE I.E.A. GOVERNING BOARD ON THE 5TH OF FEBRUARY 1975 AND 6TH OF FEBRUARY 1975. IN THE LATTER STATEMENT ENDERS SAID: -

"MY DELEGATION IS PREPARED TO DEVELOP THESE IDEAS AND WILL WELCOME THE SUGGESTIONS OF OTHER DELEGATIONS. WE EXPECT THAT WE SHALL WITHIN THE NEXT TEN YEARS, BY MEANS OF THIS KIND OF APPROACH, BE ABLE TO GO FAR BEYOND WHAT WE CAN SEE TODAY IN TERMS OF THE POSSIBILITIES FOR DEVELOPMENT OF ENERGY RESOURCES."

THE PURPOSE OF THIS PAPER IS TO GIVE WHAT I HOPE WILL BE SEEN AS A CONSTRUCTIVE APPROACH TO ENDERS' INVITATION, WITH SPECIAL EMPHASIS ON THE PROBLEMS OF ENERGY -- R AND D -- AS IT APPROACHES COMMERCIALIZATION.

2. THE PROBLEMS OF HARMONISING INTERNATIONAL ENERGY R AND D WERE, IN FACT, DESCRIBED IN OUTLINE IN ENDERS' STATEMENTS AND ELABORATED FURTHER IN THE PAPER PRESENTED BY THE UNITED STATES DELEGATION ON THE 19TH FEBRUARY 1975 TO THE STANDING COMMITTEE ON LONG TERM COOPERATION. IN THIS PAPER THE UNITED STATES PROPOSED THE FORMATION OF TWO CONSORTIA, ONE ON ENERGY R AND D AND ANOTHER ON SYNTHETIC FUELS, BUT ON CLOSE EXAMINATION IT WAS HARD TO SEE THE DISTINCTION BETWEEN THESE CONSORTIA AND THE EXISTING I.E.A. SUB-GROUP ON ENERGY R AND D. THE JOINT DISCUSSION HELD ON THE 20TH FEBRUARY 1975 BETWEEN THE STANDING GROUP ON LONG TERM COOPERATION AND THE ENERGY R AND D SUB-GROUP SUGGESTED UNCLASSIFIED

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THAT INDIVIDUAL CONSORTIA ON INDIVIDUAL SUBJECTS MIGHT BE A MORE APPROPRIATE DESCRIPTION OF WHAT WAS NEEDED, AND THE SENSE OF THIS WAS SUBSEQUENTLY CONFIRMED BY THE FURTHER NOTE FROM THE U.S. DELEGATION DESCRIBING A MODEL AGREEMENT.

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3. AS A RESEARCH SCIENTIST I SYMPATHISE WITH THE WISH OF THE U.S.A. TO DESCRIBE SOMETHING MORE SPLENDID THAN A MERE "SUB-GROUP", BUT I DO NOT ON THIS OCCASION WISH TO CONFUSE PEOPLE BY NOTATION, AND THEREFORE I SHALL CONTINUE TO USE THE NOMENCLATURE OF "R AND D GROUP" TO DESCRIBE THE PRESENT OPEN I.E.A. ASSOCIATION ON ENERGY R AND D. I SHALL RESERVE THE WORD "CONSORTIUM" TO DESCRIBE A MORE LIMITED GROUPING INVOLVING BOTH PUBLIC AND PRIVATE INTERESTS AND FUNDING, AND THE HANDLING OF PROPRIETARY INFORMATION OF COMMERCIAL VALUE. EACH INDIVIDUAL CONSORTIUM MIGHT BE ENTIRELY WITHIN THE I.E.A. MEMBER COUNTRIES OR INVOLVE OTHER GOVERNMENTS OR COMMERCIAL INTERESTS AS SEEMS APPROPRIATE IN EACH CASE.

-- THE PROBLEM --

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4. INTERNATIONAL R AND D ON BASIC RESEARCH IS NOT AT ALL DIFFICULT BECAUSE INFORMATION EXCHANGE IS AUTOMATIC AND EASY AND THE ONLY FUNDS INVOLVED ARE GOVERNMENT FUNDS, SO QUESTIONS OF PROPRIETARY RIGHTS ARE BOTH INAPPROPRIATE AND DO NOT ARISE ANYWAY.

5. IN FUNDAMENTAL SCIENTIFIC RESEARCH THE EXISTENCE OF PARALLEL PROGRAMMES IN DIFFERENT COUNTRIES IS INVARIABLY SEEN AS ADVANTAGEOUS. THE DIFFERENT APPROACHES AND CROSS CHECKING OF RESULTS FROM THE VARIOUS TEAMS STIMULATES CREATIVE INTERACTION WHICH ARE BENEFICIAL TO PROGRESS. THIS IS PARTICULARLY TRUE WHERE NEW SCIENTIFIC DISCIPLINES ARE EVOLVING HOWEVER, AS THE COST OF SCIENTIFIC RESEARCH INCREASES THIS JUSTIFICATION FOR MULTIPLE TEAMS BECOMES WEAKER AND INTERNATIONAL COLLABORATION BECOMES INCREASINGLY ADVANTAGEOUS.

6. HENCE, EXPENSIVE INTERNATIONAL R AND D ON LONG TERM RESEARCH, EVEN WHEN NOT BASIC, IS NOT DIFFICULT TO DO EITHER. FOR THIS REASON EFFORTS SUCH AS C.E.R.N. AND THE FUSION RESEARCH GROUP OF THE E.E.C., ARE CLEAR SUCCESSES. AT THE OTHER EXTREME THERE ARE NUMEROUS EXAMPLES OF INTERNATIONAL COLLABORATION ON A PURELY COMMERCIAL BASIS -- BECAUSE AN AGREEMENT BETWEEN TWO PRIVATE COMPANIES SATISFIES BOTH AND IS DIRECTED AT A CLEAR MARKET NEED.

7. IN BETWEEN THESE EXTREMES THE PROBLEM ABOUT INTERNATIONAL COLLABORATION IS THAT THE PROGRAMMES ARE DIFFICULT TO PLAN AND CONTROL EFFECTIVELY. IF SEVERAL COUNTRIES CARRY OUT RESEARCH, EACH IN ITS OWN LABORATORIES, EXPERIENCE SHOWS THAT IT IS DIFFICULT TO INTEGRATE THE RESEARCH PROGRAMME AS A COHERENT ENTITY AND DIFFICULT TO PREVENT OVERLAP. THE NEARER THE PROGRAMMES GET TO PRACTICAL APPLICATION THE GREATER THE PROBLEMS BECOME AND THE MORE THERE IS AN INCENTIVE TO SECRECY, EACH PARTICIPANT BEING KEEN TO SAFEGUARD ITS INDIVIDUAL NATIONAL POSITION. NEVERTHELESS, THE COSTS OF, AND NEEDS FOR RESEARCH BEING WHAT THEY ARE, IT IS HIGHLY DESIRABLE TO DEVELOP AN

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EFFECTIVE METHOD OF INTERNATIONAL COLLABORATION FOR SELECTED CASES.

8. WE NEED TO STIMULATE EVERY COUNTRY'S POTENTIAL TO SOLVE ENERGY PROBLEMS, AND THIS INVOLVES GIVING A DEGREE OF PROTECTION TO EACH COUNTRY'S INVESTMENTS IN R AND D IN A SIMILAR WAY AS ASSISTANT SECRETARY ENDERS DESCRIBED THE NECESSITY TO GIVE SOME PROTECTION TO EACH COUNTRY'S LARGE SCALE INVESTMENTS IN NEW ENERGY SOURCES. TO PUT IT ANOTHER WAY, HOW DO WE ACHIEVE A RATIONALISATION BETWEEN THE NORMAL AND HEALTHY MARKET FORCES OF FREE COMPETITION, AND THE POLITICAL DESIRE AND NECESSITY TO COLLABORATE ON ENERGY RESEARCH?

--THE CONSORTIUM IDEA--

9. I BELIEVE THE APPROACH TO THIS SUBJECT CAN BE MADE BY AGREEING TO FORM CONSORTIA BETWEEN VARIOUS COUNTRIES FOR VARIOUS SUBJECTS. ALMOST CERTAINLY SOME FORM OF CONSORTIUM IS NEEDED WITHIN THE COAL R AND D AREA SO LET ME USE THAT AS AN EXAMPLE TO ILLUSTRATE THE IDEA. THE COAL R AND D GROUP HAS ALREADY IDENTIFIED THREE MAJOR AREAS OF ACTIVITY:

A) ASSESSMENT OF RESOURCES AND TECHNICAL EXCHANGE OF INFORMATION

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B) MINING AND SAFETY RESEARCH AND DEVELOPMENT
C) COAL CONVERSION TECHNOLOGY

10. ITEM A) IS A GOVERNMENT TYPE RESPONSIBILITY.
IT IS IN THE INTERESTS OF --ALL-- STATES TO GET GO
GOOD ASSESSMENTS OF THE ENORMOUS COAL RESERVES OF THE
WORLD. IT IS AN APPROPRIATE SUBJECT FOR THE ENERGY
R AND D GROUP TO LOOK AT DIRECTLY AND PROBABLY NEEDS
A LEAD COUNTRY OR ORGANISATION TO TAKE THE INITIATIVE
IN THE SUBJECT AND OTHER COUNTRIES TO GIVE A SIGNI-
FICANT DEGREE OF COLLABORATION. THE COSTS OF THE
EXERCISE ARE, HOWEVER, NOT LARGE SO THE MAJOR
FACTOR WE SHOULD ENSURE IS THAT THE WORK IS DONE WELL
AND NOT SPEND TOO MUCH TIME ARGUING ABOUT WHO SHOULD
DO IT OR WHO SHOULD PAY FOR IT.

11. ITEM B) --MUST-- BE LOOKED AT WITHIN EACH
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COUNTRY SEPARATELY (IF THEY HAVE COAL) OR, I THINK,
INTERNATIONAL COLLABORATION SHOULD BE CONFINED TO
THE EXCHANGE OF INFORMATION AND EXPERIENCE, AND
OCCASIONALLY THE SALE OF MINING EQUIPMENT IN THE
FREE MARKET IN THE NORMAL WAY. THE BASIC REASON WHY
THIS IS SO IS VERY SIMPLE: THE MINING SITUATIONS IN
EACH COUNTRY ARE DIFFERENT LOCAL SITUATIONS IN MINING
DEMAND LOCAL SOLUTIONS IN MINING TECHNOLOGY.

12. ITEM C) IS, HOWEVER, QUITE DIFFERENT. EVERY-
ONE AGREES THAT COAL CONVERSION IS IMPORTANT BECAUSE
COAL WILL LONG OUTLAST OIL. HOWEVER, THE LOGIC OF
THE MARKET PLACE DICTATES THAT ALL OF US, EXCEPT
THE U.S.A., SHOULD DO NOTHING IN THIS AREA AND SIMPLY
TAKE LICENCES WHEN WE NEED THEM FOR PROVEN TECHNOLOGY
FROM THE U.S.A. THE REASONS FOR THIS NEGATIVE POINT
OF VIEW ARE OBVIOUS: THE MAJOR MARKET FOR COAL CON-
VERSION IS IN THE U.S.A. -- WHICH HAS AN ABUNDANCE OF
CHEAP, EASILY ACCESSIBLE COAL -- SO WHATEVER IS DONE
ELSEWHERE WILL BE SWAMPED BY MASSIVE U.S. INVESTMENTS
IN IDENTICAL SUBJECTS.

13. TO AVOID THIS NEGATIVE SITUATION, AND TO

STIMULATE AS MUCH VALUABLE RESEARCH AS IS JUSTIFIED, WE NEED TO FORM A "COAL-CONVERSION CONSORTIUM". SUCH A CONSORTIUM MIGHT WELL INVOLVE ONLY THE COUNTRIES, SAY, THE U.S.A., GERMANY AND THE U.K., SINCE THEY ARE THE THREE I.E.A. STATES WITH MAJOR COAL RESERVES, WHO, ON FLUIDISED COMBUSTION, MIGHT AGREE AS FOLLOWS: THE U.S.A. WOULD BUILD SEVERAL DEMONSTRATION PLANTS OF VARIOUS DESIGNS WITH A MIXTURE OF GOVERNMENT AND PRIVATE FUNDS. GERMANY WOULD SIMILARLY BUILD DEMONSTRATION PLANTS APPROPRIATE TO THE USE OF LIQUID FUEL. THE U.K. WOULD BUILD A GENERAL TEST FACILITY. EACH DECISION WOULD PROPERLY REPRESENT THE POSITION AND MAIN INTERESTS OF EACH COUNTRY AND BASICALLY THE "CONSORTIUM" WOULD MERELY BE AN AGREEMENT TO RATIONALISE R AND D EFFORTS AND TO CO-OPERATE IN PLANNING WHAT WAS (WAS) TO BE DONE. IT WOULD STILL BE TRUE THAT IF THE U.K. OR GERMANY, OR ANY OTHER COUNTRY, WANTED TO REPRODUCE THE U.S.A. DEMONSTRATION PLANTS,

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THEY WOULD TAKE LICENCES FROM THE U.S.A. SIMILARLY, IF ANY COUNTRY WANTED TO USE LIQUID FUEL THEY WOULD TAKE LICENCES FROM GERMANY, AND IF THEY WANTED TO TEST NEW IDEAS THEY WOULD USE THE U.K. PLANT ON REPAYMENT. ESSENTIALLY THE CONSORTIUM WOULD BE AN AGREEMENT TO ACHIEVE RATIONALISATION OF R AND D BY AGREEING TO CO-OPERATE IN A PLANNED WAY, INSTEAD OF COMPETING AS HARD AS POSSIBLE AS WORK APPROACHED COMMERCIALISATION. ON THE OTHER HAND IT IS ESSENTIAL THAT EACH COUNTRY BE GIVEN AN OPPORTUNITY TO INVEST (IF THEY WISH) IN THE ENTERPRISES OF THE OTHER COUNTRIES. THUS, THE U.K. COULD, IF IT WISHED, INVEST IN ONE OR MORE U.S.A. OR GERMAN DEMONSTRATION PLANT, AND SHARE IN THE BENEFITS (IF SUCCESSFUL) ACCORDINGLY, OR THE U.S.A. AND GERMANY COULD (IF THEY WISHED) CONTRIBUTE TO THE U.K. TEST PLANT AND BENEFIT ACCORDINGLY (ASSUMING IT TURNED OUT TO BE USEFUL).

14. I THINK THIS EXAMPLE MAKES IT CLEAR THAT EACH CONSORTIUM WOULD NEED TO BE BUILT UP INDIVIDUALLY, DEPENDING ON THE POSITIONS, RESOURCES AND MARKET OPPORTUNITIES OF EACH STATE. HOWEVER, AS I SEE IT, EACH CONSORTIUM WOULD HAVE THE FOLLOWING COMMON FEATURES:

A) THE STATES INSIDE THE CONSORTIUM WOULD CON-

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TRIBUTE SUBSTANTIALLY TO THE R AND D SPEND, AND THOSE
OUTSIDE WOULD CONTRIBUTE NOTHING.

B) THE STATES INSIDE THE CONSORTIUM WOULD COME
TOGETHER VOLUNTARILY TO RATIONALISE THEIR R AND D
INVESTMENT.

C) THE GENERAL RESULTS OF THE CONSORTIUM WOULD BE
MADE AVAILABLE TO ALL I.E.A. MEMBER STATES (AND OTHERS)
BUT INFORMATION OF A PROPRIETARY NATURE WOULD BE
LICENCED WITHIN AND OUTSIDE THE I.E.A.

D) INVESTMENT BY GOVERNMENTS AND PRIVATE
INTERESTS WOULD BE INVOLVED SIMULTANEOUSLY.

E) THE GENERAL IDEA WOULD BE TO OPEN UP A WORLD
MARKET TO ANY ENERGY R AND D IDEA (IF SUCCESSFUL) AND
IN THIS WAY PROVIDE A DEGREE OF "PROTECTION" TO EACH
R AND D INVESTMENT. IN SHORT THE GOVERNMENTS FORMING
A CONSORTIUM WOULD AVOID DUPLICATING EACH OTHERS WORK
WHILE ACCEPTING THE RISK OF PRIVATE FUNDING IN
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PRIVATE INDUSTRY DOING JUST THAT.

--MARKET ACCESSIBILITY--

15. THE IDEAS IN THIS PAPER ARE CERTAINLY USELESS UNLESS THE PROBLEM OF "MARKET ACCESSIBILITY" IS SOLVED. DR. KISSINGER AND ASSISTANT SECRETARY ENDERS HAVE, IN THEIR DISCUSSIONS, ADVOCATED A FLOOR PRICE" TO ENSURE THIS, HOWEVER, THEIR IDEAS DO NOT, I THINK, NECESSARILY SOLVE THE PROBLEM AND THE REMAINDER OF THIS PAPER DISCUSSES A MODIFICATION OF THEIR IDEAS WHICH MIGHT POSSIBLY DO BETTER.

--FLOOR PRICE FOR OIL--

16. THE IDEA OF A FLOOR PRICE HAS BEEN EXTENSIVELY DEBATED IN THE I.E.A. AND HAS ARGUMENTS FOR AND AGAINST AS FOLLOWS:

--FOR--

- ALL DOMESTIC INVESTORS COVERED AGAINST A DROP IN OPEC PRICES
- RAPID PROTECTION
- A FLOOR PRICE WOULD SUPPORT THE CONSERVATION OBJECTIVE OF THE I.E.A., DEPENDING ON THE LEVEL OF THE FLOOR PRICE
- IT WOULD BE A VISIBLE SIGN OF SOLIDARITY IN THE

--AGAINST--

- IT MIGHT CAUSE OPEC TO KEEP UP ITS PRICES AND, TO THAT EXTENT, WOULD WEAKEN THE NEGOTIATING POSITION OF THE CONSUMER COUNTRIES
- THE PRICE COULD CAUSE DISTORTIONS IN INTERNATIONAL TRADE
- THE SYSTEM WOULD FAVOUR THE ENERGY-RICH AS OPPOSED TO THE ENERGY-POOR COUNTRIES (E.G. PRODUCERS IN ENERGY-RICH COUNTRIES MIGHT ACQUIRE WINDFALL PROFITS BY EXPLOITING A CHEAP SOURCE OF ENERGY) AND WOULD BE A HEAVY (INDIRECT) BURDEN ON THE BALANCE OF PAYMENTS IF THE WORLD OIL PRICE FALLS BELOW THE LEVEL OF THE FLOOR PRICE SUBSTANTIALLY.

17. I THINK THE GENERAL CONCEPT OF A FLOOR PRICE IS VALUABLE BUT I THINK THERE IS ONE ADDITIONAL ARGUMENT

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AGAINST IT. IF OUR CONSERVATION MEASURES ARE SUCCESSFUL, AND IF EXCESS OIL IS AVAILABLE IN THE WORLD BUT DOES NOT COME DOWN IN PRICE, AS TRADITIONAL MARKET

THINKING TEACHES US, THEN OUR EXPENSIVE R AND D EFFORT
AND OUR EVEN MORE EXPENSIVE INVESTMENT IN ALTERNATIVE
SOURCES OF ENERGY WILL SIMPLY PRODUCE MORE OIL WHICH
SIMILARLY REMAINS UNSOLD (OR marginally UNDERCUT).
THE PLAIN FACT IS THAT A FLOOR PRICE DOES NOT
--GUARANTEE-- A MARKET FOR A NEW AND EXPENSIVE SOURCE
OF OIL. FURTHERMORE, THE FLOOR PRICE AS DEFINED AT
PRESENT, CANNOT BE REDUCED AND SO SOME PART OF THE
FORCE OF THE MARKET PLACE IS LOST. THEREFORE I
WOULD PREFER A MODIFIED CONCEPT WHICH I SHALL CALL
"THE FLOATING FLOOR PRICE".

18. TO EXPLAIN THIS IDEA LET US FIRST CONCENTRATE
EXCLUSIVELY ON OIL AND OIL PRODUCTS, WHETHER IMPORTED,
OBTAINED DOMESTICALLY OR SYNTHESISED FROM COAL. LET
US THEN LIST ALL SOURCES OF OIL AS "CHEAP COST OIL" OR
"HIGH COST OIL". THE BOUNDARY MIGHT WELL COME AT SAY
US DOLLAR 5 (5). THEN CHEAP OIL MIGHT CONSIST OF:

- OIL IMPORTS FROM OPEC
- OIL FROM EXISTING OIL WELLS IN THE U.S.A.
- OIL FROM ALASKA
- OIL FROM LARGE RESERVOIRS IN THE NORTH SEA.

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--WHEREAS HIGH COST OIL MIGHT CONSIST OF:--
OIL FROM COAL CONVERSION.
OIL DERIVED FROM SHALE SANDS.
OIL FROM SMALL RESERVOIRS IN THE NORTH SEA.
OIL FROM BENEATH DEEP SEAS.

19. SUPPOSE THEN THAT EACH STATE IN THE I.E.A
AGREES TO A STATEMENT ALONG THE LINES:

"FROM 1980 ONWARDS ALL OIL USED IN THIS STATE
MUST BE BLENDED WITH --AT LEAST-- 10(10) PERCENT OF
OIL FROM HIGH COST SOURCES."

SUCH A STATEMENT WOULD BE CLOSELY ANALOGOUS TO
THE ENVIRONMENTAL LAWS WHICH HAVE BEEN PASSED IN SEVERAL
STATES RECENTLY, WHICH HAVE BEEN WORDED (IN PARAPHRASE):

"FROM THE YEAR ... ONWARDS ALL OIL USED IN THIS
STATE MUST BE FREE OF LEAD AND NAVE SULPHUR REMOVED
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DOWN TO A DEFINED LEVEL."

20. THE ENVIRONMENTAL LAWS FORCE CHANGES IN
INDUSTRIAL PRACTICE WHICH THE MARKET PLACE, ACTING BY
ITSELF, WOULD NOT PRODUCE. THE ADVANTAGES OF THIS
FLOATING FLOOR PRICE" OVER A "FIXED FLOOR PRICE"
WOULD BE:

(1) IF THE INTERNATIONAL PRICE OF OIL DROPPED
TO THE BOUNDARY POINT OF US DOLLAR 5 A BARREL, ALL
COUNTRIES WOULD BENEFIT BECAUSE THE AVERAGE COST OF
OIL WOULD FLOAT DOWN ACCORDINGLY (ONLY 10 (10) PERCENT
COMES FROM HIGH COST SOURCES).

(2) NO MATTER WHAT HAPPENS TO THE SUPPLY OF
CHEAP OIL, THE INVESTMENTS IN "HIGH COST OIL" ARE
PROTECTED BECAUSE 10 PERCENT OF THE MARKET IS
--GUARANTEED.--

(3) THE USE OF CHEAP OIL (PRIMARILY OPEC OIL)
IS NECESSARILY REDUCED BY 10 PERCENT.

(4) ONCE THE "HIGH COST OIL" SOURCES HAVE BEEN
DEVELOPED, NEW OPPORTUNITIES WILL ARISE, FOR EXAMPLE
TO INCREASE THE PERCENTAGE TO 20(20) PERCENT, TO
INCREASE THE PERCENTAGE BUT GAIN THE ADVANTAGES OF
SCALE-IN PRODUCTION TO REDUCE THE PRICE OF "HIGH COST
OIL". TO HOLD THE PERCENTAGE AT 10(10) PERCENT IF

OPEC OIL PRICES FLOAT DOWN...

THE DISADVANTAGES OF THE "FLOATING FLOOR PRICE"

OVER THE "FIXED FLOOR PRICE" WOULD BE THAT:

(1) THE OPERATION OF THE IDEA DEPENDS UPON
ASSESSING --COSTS-- NOT PRICES.

(2) IN PRACTICE SUCH AN IDEALISED SCHEME WOULD
NOT BE EXACTLY APPROPRIATE: DIFFERENT SOURCES OF OIL,
ALL OF WHICH THE I.E.A. WOULD LIKE TO SEE DEVELOPED, HAVE
DIFFERENT COSTS NOT ALWAYS FORESEEABLE IN ADVANCE, AND
THEREFORE THE SIMPLE RULE WOULD BEST BE WORDED TO
WEIGH THE PERCENTAGE OF 10 PERCENT APPROPRIATELY TO
THE AVERAGE COST OF THE "HIGH COST OIL" USED BY EACH
STATE.

IT IS IN FACT EASY TO CRITICIZE THE "FLOATING
FLOOR PRICE" (PERHAPS BETTER NAMED THE "FIXED PERCENT-
AGE USE") SCHEME. HOWEVER, I THINK IT SHOULD NOT BE
DISMISSED TOO EASILY BECAUSE THE PRESENT "FIXED FLOOR
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PRICE" SCHEME ALSO HAS DIFFICULTIES.

2L. THE IDEA CAN BE EXTENDED TO ENERGY SOURCES
OTHER THAN OIL, BUT I SHALL NOT ELABORATE THE IDEA HERE.
END TEXT OF MARSHALL PAPER
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Handling Restrictions: n/a
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Review Comment: n/a
Review Content Flags:
Review Date: 10 JUN 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <10 JUN 2003 by SilvaL0>; APPROVED <02 MAR 2004 by ShawDG>
Review Markings:

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US Department of State
EO Systematic Review
05 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: IEA - LONDON DRAFTING SESSION ON ENERGY R&D GUIDING PRINCIPLES
TAGS: ENRG, GE, US, IEA
To: STATE ERDA
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006